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¶1. (U) Summary. This is Volume 8, issue 17 of U.S. Embassy
Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- CPIX at Double Digits
- SA Runs Risk of Sub-prime Contagion,
  Standard & Poor's Warns
- Golden Oldies Give JSE Vintage Edge
- SA Cancels Cuba Debt
- BEE Focus Shifts to Skills Development
- SA Scours the World for Skills
- Business Calls on Regulator to Delay Eskom Tariff Hearing
- Beware Sarkozy's Cozy Deals
- Gauteng's Digital Dream Project Criticized
- HP Predicts Exploding IT Growth
End Summary.

CPIX at Double Digits

¶2. (U) Statistics South Africa reported that the annual rise in CPIX, South Africa's main inflation gauge, increased from 9.4% in February to 10.1% in March, its highest level since December 2002. Most economists had forecasted an increase of 9.7%, but the effect of soaring food and fuel prices were underestimated. With food and petrol prices unlikely to recede soon, and hefty electricity price hikes likely in June, there is a strong risk that inflation could rise even further in 2008. That will feed into price-setting and wage negotiations, making further hikes in interest rates more likely in June and August. "We maintain our view that the Reserve Bank will have no choice but to hike interest rates by half a percentage point at the June meeting," JPMorgan Economist Tebogo Dintwe said. Inflation measured by CPIX, which excludes mortgage costs, has now breached its 3%-6% target range for 12 consecutive months. The South African Reserve Bank's mandate is to achieve the target and, unlike the FED, does not include a requirement to maximize economic growth, so CPIX is central to its decisions on interest rates. (Business Day, April 24, 2008)

SA Runs Risk of Sub-prime Contagion,
  Standard & -Poor's Warns

¶3. (U) Global ratings agency Standard & Poor's (S&P) warned that South Africa is among the countries outside Europe most vulnerable to the global credit crunch, even though it is not directly exposed to the fallout from the U.S. sub-prime crisis. South Africa ranked 11th among 40 emerging market countries on S&P's 2008 liquidity vulnerability index (LVI), mainly because it relies heavily on volatile portfolio inflows to finance the large current account deficit. South Africa's current account deficit widened to R145 billion ($18.6 billion), or 7.3% of gross domestic product (GDP) in
¶2007. The deficit has been comfortably financed by foreign purchases of local assets, mainly equities, since it first slid back into the red in 2003. But the inflows have begun to recede since the end of 2003 as mounting global risk aversion has dented appetite for emerging markets. So far this year, South Africa has experienced a net portfolio outflow of R4.2 billion ($0.5 billion), which compares poorly with a net inflow of R30.5billion ($3.9 billion) in the first four months of 2007. This has weighed on the rand and may lead to further depreciation of the currency, which will also have a negative impact on inflation. The rand has lost Qwill also have a negative impact on inflation. The rand has lost about 12% of its value against the dollar in 2008. S&P assumes South Africa's current account deficit will widen to 7.8% of GDP this year. However, independent forecasts predict the gap will shrink as strong commodity prices boost the value of local exports. "Our assessment is that South Africa's dependence on portfolio inflows is likely to continue and that these will remain volatile in the coming months, due to the global environment," said S&P analyst Remy Salters. "The main effect is likely to be the weaker rand. We assumed it could depreciate by 20%-30% against the dollar this year, to R8.80 or R8.90." Salters said the rand would remain a "natural buffer" for the current account deficit but there was a limit to how much it would depreciate, given South Africa's generally sound economic fundamentals, which include low levels of external debt. Earlier this month, S&P affirmed its mid-investment BBB+ credit rating for South Africa, keeping it on a stable outlook. (Business Day, April 22, 2008)

Golden Oldies Give JSE Vintage Edge

¶4. (U) Only 19 of the more than 400 companies on the Johannesburg Stock Exchange (JSE) have been listed for 40 years or more, but among them are the biggest names in business. Insurance companies such as Santam and the Liberty Group are on the list, as are mining companies such as DRDGold and Harmony Gold. Several industrial stocks are noted, such as African Oxygen and AECI. The total market cap of the 19 companies is R161 billion ($20.5 billion), just more than 3% of the JSE's total market cap. The JSE itself is 121 years old. It opened its doors as the gold rush in the 1880s created a demand for a centralized market. The oldest company on the JSE is DRDGold, founded and listed 113 years ago. JSE Head Russell Loubser, speaking at function held by the JSE to honor its stalwarts, said the presence of the 19 long-lasting companies had "helped position the JSE as a world-class stock exchange associated with high market integrity, efficiency and sound practices". Measured by market capitalization, which is more than R5trillion ($625 billion), the JSE is one of the globe's 20 largest exchanges and operates the world's largest single stock futures market. (Business Day, April 22, 2008)

SA Cancels Cuba Debt

¶5. (U) Chief Government Spokesman Themba Maseko announced that the South African Cabinet has approved the cancellation of R926.8 million ($120.4 million) worth of debt owed by Cuba. The debt arose out of insurance coverage provided to Cuba by the Export Credit Insurance Corporation of South Africa for the export of diesel engines and pesticides in 1996. "Given the assessment of Cuba's debt position, government is of the view that Cuba was not in a position to meet its obligations in the foreseeable future." According to Maseko, Cuba's debt position had the potential to undermine bilateral economic relations and hampered the two countries from pursuing mutually beneficial relations in areas such as biotechnology, pharmaceuticals and eradicating tuberculosis and

malaria in Africa. (Mail and Guardian, April 17, 2008)

BEE Focus Shifts to Skills Development

¶6. (U) South African corporations are beginning to focus on elements of Black Economic Empowerment (BEE) other than equity ownership, according to a report by Grant Thornton. Grant Thornton Eastern Cape Managing Partner Tony Balshaw said, "There has been a shift in corporate thinking with regard to BEE. Ownership is no longer the foremost element in the BEE scorecard. There is stronger emphasis on skills development." Balshaw said that businesses are now developing people internally and fast-tracking key employees as their preferred BEE strategy. "Businesses have realized that to achieve their BEE goals, they must place stronger emphasis on recruiting the right people and developing them, rather than focusing only on equity ownership." The study was conducted recently among 300 privately held business with 100 to 400 employees. (Business Day, April 24.)
Qemployees. (Business Day, April 24.)

SA Scours the World for Skills

¶7. (U) The Department of Home Affairs (DHA) has launched a pilot project with large companies to recruit skilled specialists from abroad to address South Africa's skills crisis. Due to the global shortage of skilled workers, DHA has developed the Large Account program to pave the way for large companies that are in dire need of specialized skills. An analyst at Deloitte Global Employer Services said it was "refreshing to see the SAG step up to the plate of actually building 'scaffolding' to address the skills shortage so extensively identified in the Accelerated and Shared Growth Initiative for SA (ASGISA) and the Joint Initiative on Priority Skills Acquisition (JIPSA) initiatives." DHA tested the feasibility of establishing a separate department to process immigration applications for companies which process large amounts of scarce skills. Four companies were initially used in the first-stage pilot project between July and October 2007. The project is now entering the second phase, where an additional 20 companies are to be selected for involvement in the process. (Business Day, April 23, 2008)

Business Calls on Regulator to Delay Eskom Tariff Hearing

¶8. (U) Business Unity South Africa (BUSA) has written to the National Energy Regulator of SA (NERSA) calling for it to abandon its current accelerated review of state power supplier Eskom's request for a nominal 60% tariff increase to give stakeholders sufficient time to compile comprehensive responses. BUSA CEO Jerry Vilakazi called for greater transparency from the utility, as well as from government, which has come out in support for Eskom's application. "We accept that current prices are not sustainable and will have to rise," Vilakazi said, but he stressed that BUSA was strongly opposed to the quantum and timing of the proposed increase, coming on top of an approved more modest increase that began on April 1. The ANC National Working Committee agreed earlier this week that the application process should proceed, after previously calling for a halt to the public-participation process being run by NERSA on the rate increase application. A Business Day editorial recognized the difficulty in NERSA's task whose decision will inevitably be controversial and politicized. The editorial applauded the government's and the ANC's recent decision to convene an energy summit to coordinate responses to the power crisis and seek a broader consensus on the way forward. The editorial worries that efforts to tackle the crisis are already being overwhelmed by process, citing the multiple forums and task teams, of which the National Electricity Response Team is only one. (Business Day, Engineering News. April 24, 2008)

Beware Sarkozy's Cozy Deals

¶9. (U) Two Noseweek editorials took a negative stance towards Areva and France, claiming the country is often seen as using Africa as a

dumping ground for nuclear waste and that France is not viewed positively by the African Union as a result of its colonial history in Africa. Areva and Westinghouse are short-listed for tenders for up to 20,000 MW and an estimated $70-80 billion for new build nuclear power stations over the next twenty years. The articles cited alleged bribes to Areva officials related to other transactions and European involvement in corruption related to arms deals in South Africa. The articles noted that South Africa is a founding member of the African Union and signatory to the New Economic Partnership for African Development (NEPAD) which oblige the SAG to ban deals with companies convicted of or incriminated by corruption. (Noseweek investigative magazine, April, 2008)

Gauteng's Digital Dream Project Criticized

¶10. (U) IT companies criticized Gauteng provincial government's plans to build Gauteng Link, a province-wide telecommunications network, at a cost of up to R35 billion ($4.5 billion). The project requires the approval of the national cabinet and is expected to be completed by 2010. The intention is to build a high-capacity network to bridge the "digital divide", reduce communication costs (especially for broadband access), and give citizens access to an
Q(especially for broadband access), and give citizens access to an
array of online government services. The project involves big investments by the provincial government and municipalities, but will also rely on the support of the private sector. However, the undertaking is already coming under fire from the private sector, with one telecom industry executive labeling it a "waste of money". Gauteng wants to spend more on this project than Telkom rival Neotel will spend in the next decade on its entire national network deployment. Sources in the private sector question whether the project will get off the ground. They indicated that the National Treasury would block funding in the same way it has questioned other planned telecom investments by state-owned companies Sentech and Broadband InfraCo. Gauteng Shared Service Center Chief Information Officer Lemmy Chappie said Gauteng Link will be run as a public-private partnership. Gauteng's three biggest municipalities have thousands of kilometers of fiber-optic cable in the ground, but infrastructure is barely developed in outlying areas. Chappie said Gauteng Link plans to bridge gaps in existing infrastructure and extend the network to lesser-served parts of the province since commercial telecom operators such as Telkom have shown an unwillingness to provide services in economically depressed areas. The press described the funding plan as sketchy, but noted that the government may raise debt to build the network. Access to the network will be subsidized for consumers but it won't be free. A special investment vehicle, the Gauteng Fund, will be used to finance the network. The provincial government has already

contributed R500 million ($65 million). The fund is expected to grow rapidly if the cabinet approves the project. Chappie said, "The distribution network will be operated by different companies that will provide last-mile services to citizens, creating jobs and ensuring the economy grows." Chappie also hoped to work closely with Sentech, which is preparing SA for the switch from analogue to digital terrestrial broadcasting. Chappie said consumers could use the digital decoders required for digital TV viewing to also receive Internet signals, thereby turning people's TV sets into Internet terminals. In an environment where many people can not afford a computer, he thought this would be a good way to get people hooked up to the Internet. (Financial Mail, April 11, 2008)

HP Predicts Exploding IT Growth

¶11. (U) Hewlett-Packard said it saw Africa as one of its fastest-growing markets, expecting the world's poorest continent to rival India for IT outsourcing within a decade. Hewlett-Packard Africa Managing Director Rainer Koch told Reuters its sales on the continent were rising 25% per year. He expected that pace to continue regardless of any economic downturn in developed economies, with growth in the sector likely outpacing that in India, albeit from a lower base. "Because of outsourcing, salaries in India are

skyrocketing so I think you will see people recruiting in Africa accordingly. Koch thought Africa would be competing with India in 10 years. He said key to new growth in Africa was the colossal growth in mobile phone usage since 2000, revolutionizing access to communication and ease of business at the same time as a commodity price boom benefited a string of countries. Koch said the firm currently employed around 1,000 people across Africa including outsourcing centers, with local partner firms employing several thousand more -- but that could increase by 20 to 30% in the next few years. (Engineering News, April 22, 2008)

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